Crown Corporation
BUSINESS PLANS
FOR THE FISCAL YEAR 2008–2009

Nova Scotia Municipal Finance Corporation
Business Plan 2008–2009

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Message from the Minister and the Chair

As the Minister of Service Nova Scotia and Municipal Relations, I am the Minister responsible for the Nova Scotia Municipal Finance Corporation (NSMFC). The NSMFC is a Crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act of the Legislature of the Province of Nova Scotia in 1979 and began business in January 1980.

The corporation's purpose is to provide the lowest available cost financing to its clients, which include municipalities, municipal enterprises, school boards, and hospitals. All municipalities and municipal enterprises must finance their external capital requirements through the corporation. Currently, most school board and hospital capital expenditures are financed directly by the province. The municipal finance corporation concept is widely used in Canadian provinces as a cost-effective, efficient means of raising long-term debenture funds to finance municipal capital projects.

The NSMFC is forecast to have over $690 million in debentures outstanding at March 31, 2008. New debenture issues in 2008-2009 are estimated to be in the range of $120 million, which will be balanced against debenture retirements of $91 million in 2008-2009.

The corporation is governed by a Board of Directors appointed by the Governor-in-Council. Legislation requires that 40 per cent of the board be appointed on the recommendation of the Union of Nova Scotia Municipalities. Four full-time staff of the corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

In July 2004 the NSMFC conducted a survey of its clients, seeking feedback on whether or not the NSMFC was fulfilling its mandate and meeting its clients' needs, as well as seeking input on the direction municipalities would like the NSMFC to take in the future. The results of that survey reaffirmed that the NSMFC is meeting its core business of providing the lowest available cost of financing for municipal infrastructure projects and supported the direction that the NSMFC is moving toward, which is the development of programs and models that help build financial management knowledge in municipal governments. The results from the survey are used as baseline data for a number of the performance measures and outcomes detailed in the Business Plan. Clients are to be surveyed in 2008.

The Honourable Jamie Muir

Minister

Greg Keefe, CMA

Chair, Nova Scotia
Municipal Finance Corporation

Mission

To provide capital infrastructure financing to its clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Link to the Corporate Path

The corporate path is a process of identifying government priorities and direction and linking them with the business planning process. Nova Scotia's corporate path focuses on creating winning conditions, seizing new economic opportunities, building for individuals, families, and communities, opportunities for sustainable prosperity, and a social prosperity framework. The immediate five priorities flowing from the corporate path focus on the following five categories: (1) educating to complete, (2) protecting our environment, (3) better roads and infrastructure, (4) safer, healthier communities, and (5) shorter wait times.

The NSMFC's contributions to the corporate path priorities are in the area of infrastructure objectives that contribute to the creation of economic opportunities and building safe and sustainable communities. NSMFC loans are used to finance sewage treatment plants, solid waste facilities, and water services that promote clean and healthy communities. Loans are made to finance streets, buildings, recreation services, and the purchase and development of land, all of which contribute to safer, healthier communities. By working with municipalities to develop recommended financial management practices and adopt North American standards in budget presentation and financial reporting, the NSMFC contributes to the development of winning conditions.

Planning Context

The corporation faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year:

- The NSMFC must ensure that it has access to capital markets and that it has the financial and administrative ability to meet municipal government demand for capital infrastructure funding. Capital markets have been unsettled at times during the past year, and this has posed challenges for municipal debt issuers.
- Keeping abreast of developments in municipal government capital finance: As a specialist organization, the SMFC is challenged to develop, maintain, and demonstrate expertise in municipal government capital finance.

- Maintaining financial self-sufficiency: In order to meet its mandate, the corporation must remain economically viable in both the short and long term. This includes matching assets and liabilities, both to amount and maturity, and maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within its budget.
- Identifying client needs and responding to them: Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options. There is also an opportunity to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices and meeting professional standards in budget presentation and reporting.
- There is also opportunity to develop partnerships with organizations such as the Federation of Canadian Municipalities to provide a conduit for low-cost loans for clients.

The major risks to the corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The NSMFC will continue to work with these provincial departments to align both sets of priorities.

Strategic Goals

The NSMFC's strategic goals are designed to assist the government in its corporate path priorities in the area of infrastructure objectives, which contribute to the creation of economic opportunities and building safe and vibrant communities. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are attractive places in which to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission of providing the lowest available cost of financing for municipal capital infrastructure and long-term financial planning and to support the provincial government's infrastructure, economic, and community priorities.

- To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, and to meet their particular debt structure and timing needs.

- To ensure access to capital markets through prudent management of all financial aspects of the corporation, which include credit risk and asset/liability management.
- To help build financial management knowledge in municipalities and to promote municipal capital project planning and financing.

Core Business Areas

1. *Providing capital financing at the lowest available cost*

- Provide financing for clients' approved funding requirements through the issuance of pooled debentures. Pooling of capital requirements allows the NSMFC to issue debentures in capital markets at rates lower than if single issues were placed for clients.
- Provide financing options for clients through the short-term loan and bridge financing programs.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Fund, where funding is available for projects meeting established criteria at below-market rates.
- Develop and review policies regarding the corporation's use of financial innovation techniques and instruments.

2. *Prudent financial management of the corporation to ensure access to capital markets*

- Ensure that an acceptable process is in place for evaluating the creditworthiness of the loans made by the corporation.
- Ensure that the corporation's assets and liabilities are closely matched in both amount and maturity.
- Provide prudent administration of the corporation's financial resources to ensure that the corporation's administrative expenses and reserve balances are within approved policies.
- Adhere to generally accepted accounting practices for the valuation of financial instruments.

3. *Helping to build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance*

- Partner with municipal clients, Service Nova Scotia and Municipal Relations, and the Association of Municipal

Administrators (AMA) on the topic of capital planning and finance through the identification of relevant professional association resources.

- Develop best practices and models to help build financial management knowledge in municipal government. Encourage Nova Scotia municipalities to apply for GFOA financial reporting and budgeting awards.
- Maintain links with the investment community, public sector finance practitioners, and academics and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for 2008–2009

The following details the actions, products and services that the NSMFC intends to carry out in order to fulfil the its mission and meet its strategic goals.

1. Provide capital financing at the lowest available cost

- Issue pooled debentures for the approved amount required to meet municipal borrowing requirements and lend a similar amount to municipal units and enterprises. New debenture issuance is expected to be in the $120-million range; this is balanced against retirements of existing debenture in 2008-2009 of approximately $91 million. Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- Facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Fund, where funding is available for projects meeting established criteria at below-market rates.

2. Prudent financial management of the corporation to ensure access to capital markets

- Obtain verification of creditworthiness from the Department of Service Nova Scotia and Municipal Relations (for municipal borrowers) prior to setting the parameters for pooled issues.
- Match the amount, term, and timing of NSMFC debentures and loans to units.
- Manage the NSMFC's financial resources (budget and reserves) according to policies established by the corporation's Board of Directors.
- Adhere to generally accepted accounting practices for the valuation of financial instruments.

3. Help build municipalities' financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance

- Continue to provide a leadership role in the Financial Management Capacity Building Committee initiative to promote financial and budgeting policies to municipal governments in Nova Scotia.
- Implement a marketing and promotion strategy to encourage municipal adoption of practices recommended by professional bodies.
- Promote the municipal use of the Debt Affordability Model and provide technical support for municipal administrators. The Debt Affordability model is a tool for use by municipal councils to help answer the question of how much debt is too much debt for their municipal unit. Municipalities can also use the model for multi-year budgeting and forecasting and analysing revenue and expenditure options.
- Establish committees, as required by the board, to study the merits of new products and services and alternative ways to meet municipal capital borrowing requirements.
- Work with the corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying them.

Human Resource Strategy

Organizations with small staff are challenged when developing human resource strategies, particularly in the area of succession planning, as the skills requirements for the corporation's positions are diverse. The board's strategy has been to develop and retain existing staff and to build capacity by involving other civil servants in the operation of the MFC through corporate officer positions and secondment opportunities. Development and training opportunities are made available to existing staff to enable them to stay abreast of developments in the industry. The corporation's human resource strategy is aligned with the government resource strategy.

Budget Context

Nova Scotia Municipal Finance Corporation Estimated Budget Expenditures

	2007–08 Estimate ($,000)	2007–08 Forecast ($,000)	2008–09 Budget ($,000)
Total Program Expenses—Gross Current	$ 525.1	$ 525.1	$ 566.3
Net Program Expenses—			
Net of Recoveries* (see note below)	$ 0.0	$ 0.0	$ 0.0
Salaries and Benefits—Gross	$ 336.4	$ 336.4	$ 358.6
Funded Staff (FTEs)—Gross	4	4	4

* Note: The NSMFC is completely self funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short-term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet as at March 31, 2007 (Audited)

Assets	
Current Assets	
Cash	$ 126,494
Short term investments at cost	5,627,000
Accrued interest receivable	10,021,832
Other receivables	1,384
Principal due within one year on loans to units	92,686,851
Long term Assets:	
Loans to units	642,193,561
Less principal included in current assets	(92,686,851)
Deferred Charges:	
Discount on debenture debt	2,073,267
Less accumulated amortization	(1,685,856)
Total Assets	$ 658,357,682
Liabilities and Equity	
Current Liabilities:	
Accounts payable	$ 32,155
Due to municipal units	42,500
Accrued interest payable	9,992,434
Principal due within one year on debenture debt	92,662,848
Employee obligations	87,636
Long term Debt:	
Debentures payable	642,206,880
Less principal included in current liabilities	(92,662,848)
Deferred Credits:	
Discount on loans to units	2,067,170
Less accumulated amortization	(1,683,014)
Equity	
Reserve Fund	5,611,921
Total Liabilities and Equity	$ 658,357,682

Statement of Revenue, Expenses and Reserve Fund
(year ended March 31, 2007)
(Audited)

Revenue	
Interest on loans to units	$ 32,924,738
Amortization of discount on loans to units	153,215
Interest on short-term investments	240,185
Debenture expense recoveries and reserve fees	729,786
Total Revenue	34,047,924
Expenses	
Interest on debenture debt and short-term loans	32,921,473
Amortization of discount on debenture debt	153,824
Debenture issue expense	349,528
Administrative expense	378,555
Total Expenses	33,803,380
Net Revenue	244,544
Reserve Fund, Beginning of Year	5,367,377
Reserve Fund, End of Year	$ 5,611,921

Outcomes and Performance Measures

Core Business Area 1 *Providing capital financing at lowest available cost*

Outcome	Measure	Data *(2004 Survey results form % baseline data)*	Target 2008–09	Target 2009–10	Strategic Actions to Achieve Target
To provide the lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing and processing of debenture issues				• Monitor alignment of debenture issues with the construction completion schedule and capital budgeting process
	• Regional municipalities	50%	100%	100%	
	• Rural municipalities	75%	90%	95%	
	• Towns	89%	90%	95%	
	Percentage of clients that agree that the debenture terms and structure are flexible enough to meet their needs				• Promote short-term financing program. Work with municipal units on financing options (payments and term) • Communicate options through the use of web page and consultations
	• Regional municipalities	50%	100%	100%	• Use e-mail to inform municipal CFOs and CAOs of MFC rates and products
	• Rural municipalities	56%	85%	90%	
	• Towns	89%	90%	95%	
Lowest available cost of financing for clients	Quality of credit loans	Procedures ensure creditworthiness of loans	Regular review of loan procedures	Regular review of loan procedures	• Maintain quality of portfolio • Promote profile of NSMFC credit quality to maintain strong relationship with government to ensure its support of provincial guarantee
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial guarantee allows the MFC to price off the PNS spread	Maintain access to the provincial guarantee	Maintain access to the provincial guarantee	

Core Business Area 2 *Prudent financial management for the corporation's resources to ensure access to capital markets*

Outcome	Measure	Data *(2004 Survey results form % baseline data)*	Target 2008–09	Target 2009–10	Strategic Actions to Achieve Target
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operational viability of the corporation	Client default rate (default is defined as failing to make a principal or interest payment within five days of the due date)	0	0	0	• Ensure that all loans are creditworthy • Monitor creditworthiness procedures and loan payment processes
	Matching of assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans	Assets and liabilities are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	• Match the term and timing of NSMFC debentures and loans to clients
	Adoption of a risk management strategy	n/a	Plan adopted	Monitor plan	• Review and revise plan as necessary

Core Business Area 3 *Helping to build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance*

Outcome	Measure	Data *(2004 Survey results form % baseline data)*	Target 2008–09	Target 2009–10	Strategic Actions to Achieve Target
Use of best practices (BP) in financial management decision making	Increased awareness of best practices for financial management Based primarily on GFOA (Government Finance Officers Association) programs Municipalities develop and showcase best practices	30% of clients are aware of knowledge-building programs offered by the NSMFC	Post best practices and information on municipal international financial standard awards on the website 2 units develop BPs	80% awareness level	• Communicate regularly with clients on the work NSMFC is involved in through AMA regional meetings and conferences and MFC web page partnerships • Make one-on-one calls and field visits to clients to offer advice and assistance • AMA Newsletter • Circulate all BPs developed to municipalities in hard copy format
Increased financial management knowledge in municipal units	Broader access to financial resources—efficient use of resources and building of networks among financial administrators Number of municipalities receiving GFOA budget and financial reporting awards		Two Nova Scotia municipalities participate in GFOA budget and reporting awards	Two Nova Scotia municipalities receive GFOA awards	• Expose municipal units to conferences that develop and promote best practices in financial management • Continue to offer financial assistance in sponsoring municipal attendance at annual GFOA conferences • Add GFOA award information to MFC website • Actively participate in joint committees with AMA
NSMFC client awareness of new financial products and features that may help municipal units	Percentage of municipal units that are aware of and satisfied with products offered by NSMFC: • Regional municipalities (3) • Rural municipalities (21) • Towns (31)	 100% (3) 75% (15) 89% (27)	 100% (3) 95% (20) 95% (29)	 100% (3) 95% (20) 98% (30)	• Communicate regularly with clients on the programs that NSMFC is offering through AMA regional meetings and conferences and MFC web page • Make one-on-one calls and visits to clients to offer advice and assistance

Core Business Area 3 *Helping to build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long-term strategic approach to capital project planning and finance*

Outcome	Measure	Data *(2004 Survey results* form % *baseline data)*	Target 2008–09	Target 2009–10	Strategic Actions to Achieve Target
Development and implementation of products and services to respond to clients' needs	Effective programs directed at clients' needs	Request for program development: Long-term planning models Enhanced financial management practices Innovative financing Educational programs	Development of programs that meet client needs including developing 6 best practices and implementing 10 BPs Two units adopt debt affordability model Two units participate in educational sponsorship program	Develop 6–8 Implement 42 (cumulative) 3 units (cumulative) 2 units	• Continue partnering with AMA, municipal units, and SNSMR • Promote debt affordability and capital investment plan (CIP) models • Maintain links with professional associations • Work with FCM on financing opportunities for municipal projects • Engage graduate summer intern in research activities that would benefit municipalities and MFC